

TOWN OF ELSMERE
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005

**TOWN OF ELSMERE
INDEX
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>PAGES</u>
Independent Accountant's Report on Applying Agreed-Upon Procedures	1 - 4
Schedule of Municipal Grants	5

DAVID R. URIAN, CPA
DAVID C. DOANE, CPA
CHARLES H. STERNER, JR. CPA, CVA
SHELDON L. FORNEY, CPA
JAY M. STEVENS, CPA, PFS
ROGER R. REED, CPA
ELAINE E. GRAVES, CPA

TRUITT W. JEFFERSON, CPA, DIRECTOR
RETIRED

ANITA Y. SMITH, MEd, DIRECTOR

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Town of Elsmere
11 Poplar Avenue, Suite 2
Elsmere, Delaware

We have performed the procedures enumerated below, which were agreed to by Town of Elsmere and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2005 on Page 5. The Town of Elsmere's Management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over Municipal Street Aid grant funds from discussion with management and report internal control weaknesses.

During completion of the program checklist, no internal control weaknesses over the Municipal Street Aid grant funds were noted.

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the Town's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2005. Detail any instances of noncompliance.

FINDING NO. 05-1 - During completion of the Town of Elsmere's program checklist for the Municipal Street Aid grant, it was noted that the Town submitted the Municipal Street Aid annual report to the State over two months late. According to 30 Del. C. §5165(b)(2), the municipality shall submit the annual report on or before October 1st. Noncompliance with report deadlines could jeopardize the grant award to the Town.

RECOMMENDATION - We recommend the Town submit future Municipal Street Aid annual reports on or before October 1st of each year.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town of Elsmere recognizes the importance of submitting the Annual Report in a timely manner, and has done so for the subsequent period ending June 30, 2006. The report for the period ending June 30, 2006 was submitted prior to the October 1st deadline, and the Town has already received its Municipal Street Aid allotments as a result of that timely submission."

FINDING NO. 05-2 - During completion of the Town of Elsmere's program checklist for the Municipal Street Aid grant, it was noted that the annual report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The beginning balance of the annual report was overstated by \$ 10,460.83, interest earned was understated by \$ 224.75, other income was understated by \$ 12,438.81, total available funds were understated by \$ 2,202.73, total expenditures were understated by \$ 3,952.75, and ending balance was overstated by \$ 1,750.02 as shown on the report. The failure to prepare accurate financial reports could result in the loss of grant funding.

RECOMMENDATION - The Town of Elsmere should more carefully prepare and review the annual report to ensure its accuracy before submission to the Office of the State Treasurer.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town of Elsmere has initiated new review procedures, requiring a monthly analysis of the entries to the Municipal Street Aid Accounts, thus ensuring that all entries are properly classified."

The errors and omissions noted above were discovered, and corrected, as the result of an internal audit by the Town of Elsmere, performed on the original version of the data contained in the original report. When these errors and omissions were discovered and corrected, a revised report showing the proper amounts was prepared, and was submitted to the State Treasurer's Office, prior to the start of the audit."

The Town emphasizes that these errors and omissions had been discovered and corrected before the start of the audit."

FINDING NO. 05-3 - During completion of the Town of Elsmere's program checklist for the Municipal Street Aid grant, it was noted that the Town paid an invoice more than 30 days after receipt of the invoice, which is not in compliance with the State's regulations over disbursements [29 Del. C. §6516(d)]. Late fee charges of \$ 55.44 were incurred by the Town due to the late payment which is not an allowable expenditure from Municipal Street Aid funds ([30 Del. C. §5165(a)(2)] and "Guidelines for Municipal Street Aid Funding"). The Town subsequently reimbursed the Municipal Street Aid account on December 30, 2005 for this expenditure.

RECOMMENDATION - The Town should ensure invoices are paid in a timely manner and only eligible expenditures are paid out of Municipal Street Aid funds.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town of Elsmere had discovered these errors, and reimbursed the MSA Fund for the late fee charges. These corrections were noted on the amended Annual Report submitted to the State Treasurer's Office. The payment process has been amended to ensure that MSA payments are made in a timely manner. We noted that some of these issues arose because of the unusual signature requirements imposed by the MSA rules. We have since adjusted the notification process for signatories to ensure that signatures are obtained in a timely manner."

FINDING NO. 05-4 - During completion of the Town of Elsmere's program checklist for the Municipal Street Aid grant, it was noted that the Town used Municipal Street Aid funds to pay \$ 11,524.33 for street improvements that were funded by another state grant program which is not an allowable expenditure [30 Del. C. §5165(b)(2)]. The Town subsequently reimbursed the Municipal Street Aid account for \$ 11,524.33 on December 30, 2005.

RECOMMENDATION - The Town of Elsmere should properly identify Municipal Street Aid expenditures in order to avoid ineligible disbursements.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"These errors were simple coding errors due to the complexity of the financial software then employed by the Town Finance Department. A new financial software system has been implemented, which has permitted the Town to establish the Municipal Street Aid Fund as a separate fund in the accounting system, thereby ensuring that the costs are properly segregated and reported. The revised monthly reconciliation process identifies these anomalies on a monthly basis and allows the Town to initiate corrective action on a current basis, rather than at the end of the reporting period."

FINDING NO. 05-5 - During completion of the Town of Elsmere's program checklist for the Police Pension grant, it was noted that the Town did not submit to the State Board of Pension Trustees by April 1 a listing of retired police officers receiving benefits from the Town as of December 31 of the preceding year, excluding those receiving benefits from the State of Delaware County and Municipal Police Pension Plan, as required by the Delaware Code [18 Del. C. §709(b)]. The State Board of Pension Trustees has not requested this information from the Town or provided a format for the Town to submit this information to them. Failure to comply could result in the loss of grant funding.

RECOMMENDATION - The Town should provide mandated information regarding retired police officers receiving benefits to the State Board of Pension Trustees by April 1 of each year.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The State Board of Pension Trustees did not address the request for this information to the Town Manager's Office. This resulted in the finding noted in the Management Letter. We note that as a result of this audit, we investigated this issue, and discovered that the forms are being sent to the Police Department not to the Town Manager's Office. Therefore, the Town had no inkling that there was a discrepancy in the filing requirements."

The City was unaware of the requirement to submit this information to the State Board of Pension Trustees. The City will provide information requested by the State of Delaware.

The Town therefore requests that the Town Manager's Office be included in the distribution of the required forms so that the Town can address and cooperate with this filing requirement."

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts and violations of provisions of contracts or grant agreements and abuse or misuse of state funds were noted.

4. Prepare the Town's Schedule of Municipal Grants received during the year ended June 30, 2005.

See page 5.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Town's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Town of Elsmere's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

Jefferson, Ulan, Doane & Starnes, P.A.

Georgetown, Delaware
February 14, 2006

**TOWN OF ELSMERE
SCHEDULE OF MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005**

- 5 -

<u>Grants</u>	<u>Amount Received</u>
Municipal Street Aid	\$ 138,573.34
Police Pension	40,217.59
State Aid to Local Law Enforcement	7,573.08
Emergency Illegal Drug Enforcement	6,094.45

See independent accountant's report on applying agreed-upon procedures.